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ASIA-PACIFIC ECONOMIC SURVEYS: LAOS

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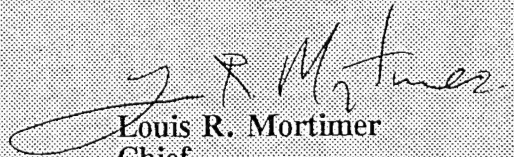
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ASIA-PACIFIC ECONOMIC SURVEYS: LAOS

SUMMARY STATEMENT

In 1987, the socialist economy of Laos continued to pursue liberal reforms aimed at easing bureaucratic controls, eliminating government subsidies, and improving peasants' and workers' incentives. These measures were initiated in 1979 in an attempt to halt a 4-year disastrous economic decline caused by the state's collectivization of agriculture and the nationalization of industry. Compared with its socialist neighbors, Vietnam and Cambodia, the Laotian economy has performed relatively well since 1982. The Fourth National Congress of the Lao People's Revolutionary Party (LPRP)--held in Vientiane in November 1986--placed a great emphasis on economic reform goals and approved the Second 5-Year Plan (1986-90) calling for the expansion of food production, the promotion of exports, and the development of new economic structures.

Laos is a landlocked, very poor, small country with a population of 3.7 million, growing at an average annual rate of 2.2 percent, and an estimated per capita income of only US\$143 per annum. Twelve years after the communist take-over, the nation has basically achieved food self-sufficiency, but still remains underdeveloped with a large subsistence sector dominated by agriculture, an industry in its infancy, a manufacturing output of less than 6 percent of gross domestic product (GDP), and an extremely poor infrastructure. Like before 1975, the economy has relied heavily on massive international assistance and will likely continue to do so for the foreseeable future.

NATIONAL INCOME GROWTH

Statistics of key economic indicators of Laos in general, and of its national income growth in particular, are difficult to find or reconcile. The Laotian Government did not begin to evaluate its national income until 1981, and since that time has adopted the Soviet method of calculating economic growth on the basis of material production only, excluding the service sector which is considered small and insignificant. The World Bank and other multilateral agencies, on the other hand, employ a different method of measuring economic growth which includes the value of services. The problem is complicated by the fluctuating exchange rate of the unstable kip (the Laotian currency) to the U.S. dollar.

According to LPRP Secretary General Kaysone Phomvihan, the gross national product (GNP) has doubled over the 1976-86 period, at an average compounded growth of 7.5

percent per year. Asian Development Bank statistics show that Laos' GDP increased by 8.2 percent in 1985 over 1984, which also reflects the actual average annual growth rate for the First 5-Year Plan (1981-85). The Fourth LPRP National Congress set an average growth target of 10 percent per year for the Second 5-Year Plan (1986-90).

POOR INFRASTRUCTURE AND LACK OF TRAINED PERSONNEL

Laos is plagued by an inadequate transportation system, which creates tremendous problems of distribution and procurement of supplies. The country's roads, highways, and bridges were extensively damaged by the Indochina War (1954-75) and need major repairs. Sixty-six percent (18,220 kilometers) of the 27,527-kilometer land transportation network of roads and highways are unimproved earth and unusable during the rainy season (mid-May to mid-September). In certain remote areas--particularly along the borders with China in the north, Thailand around Paksane, and Cambodia in the south--roads are neglected and inaccessible because of dissident activities undertaken by the Hmong tribesmen, other rebel groups, and various resistance forces led by leaders of the old regime. There is no railway, and rice and foodstuffs are transported by boat on the Mekong River and its tributaries. Water transportation facilities are rudimentary and outdated. On the positive side, internal air transport is fairly well developed with a total of 64 airfields, of which 49 are usable and 9 are equipped with permanent-surface runways.

The Laotian Government has stepped up its efforts to meet growing demand for better transportation services because of the increased output of agricultural and industrial products. Some construction projects have been undertaken to improve and expand the land transport system. With Soviet economic assistance that gives a high priority to the development of the Laotian infrastructure, four large bridges have been completed (the Nam Neun, Nam Ngum, Nam Kading, and Se Banghiang), and two more are underway (the Sedon Bridge on Route 13 and the Nam Theun Bridge on Route 8). Of particular importance is the bridge over the Nam Kading River--also named in honor of late Soviet cosmonaut Yuriy Gagarin--which is 365 meters long, 10 meters wide, with a meter footpath on each side. The bridge is capable of supporting loads up to 80 tons, such as convoys of heavy armored vehicles. Two other big-Soviet assisted projects are the construction of Highway 9 and the oil pipeline linking Vientiane to the sea port of Vinh in Vietnam. Once completed, the pipeline will supply 300,000 tons of petroleum per year, some of which will be allocated for the 50,000-odd

Vietnamese troops stationed in Laos.

The shortage of technicians, engineers, skilled workers, and trained managers also have hindered Laos' economic progress. It is estimated that of the 10 percent of Laotians who fled the country in the 1976-86 period, the majority belonged to the educated middle class. The loss of these qualified human resources has severely crippled the national economy and impaired its ability to manage foreign aid and assistance properly and efficiently. Until the Lao People's Revolutionary Party solves its workforce problems, upgrades and trains its workers, and better educates its local party cadres, the country lacks a major motivating force to sustain a modern economy.

MASSIVE INTERNATIONAL ASSISTANCE

Foreign economic assistance has been vital for the Laotian economy and accounts for about 80 percent of the government revenues. During the 1977-83 period, the annual aid amount averaged about US\$100 million. The 1984-87 level of foreign assistance ranged from US\$70 million to US\$80 million a year, which is said to be the maximum the economy can absorb. The Soviet Union is the biggest donor country followed by Vietnam which signed a 25-year Treaty of Friendship and Cooperation with Laos in 1977. According to official sources, Soviet assistance totals more than 50 percent of the annual international assistance to Laos. Vietnam provided over US\$133 million during the decade 1976-86. The various international agencies of the United Nations--notably the World Bank, the International Monetary Fund (IMF), and the Asian Development Bank (ADB)--also have made significant contributions to the Laotian economic development through their financial support and technical assistance programs.

A major part of the international assistance received has been used by Laos to finance a chronic and widening trade deficit and service external debt payments. According to ADB statistics, the Laotian trade balance registered a deficit of US\$115 million in 1985; a near three-fold increase over the US\$39 million in 1976. External indebtedness was estimated at US\$410 million in 1985 and foreign reserves stood at just US\$16.15 million in the same year.

MAJOR PRODUCTION AND TRADE ITEMS

The Laotian economy is engaged primarily in subsistence agriculture and greatly depends upon good weather conditions.

In 1985, agriculture and forestry constituted 80 to 90 percent of GDP and employed about 75 percent of the work-force. Glutinous rice is the staple food for the majority of the population, although some hill tribes and villages still grow rice by the slash-and-burn method despite governmental prohibition.

Rice production has made remarkable progress following the liberal reforms of 1979. During the First 5-Year Plan (1981-85), the annual harvest consistently exceeded 1 million metric tons, up from 660,000 metric tons in 1976. In 1984, Laos' rice production reached a record 1.3 million metric tons, which allowed the nation to become self-sufficient in food for the first time since 1975. In 1985, the paddy harvest grew to 1.4 million metric tons, and the per capita output of paddy rose to 390 kilograms. This exceeded the country's annual per capita target of 350 kilograms, and compared favorably with the 280 to 300 kilograms in neighboring Vietnam. In 1987, however, Laos faced a rice shortage with a total production of only 1.2 million metric tons. This total was down from a high of 1.5 million metric tons the previous year and was due to adverse weather which afflicted much of Southeast Asia in 1987. Other crops include maize, cassava, and potatoes.

Forest covers about half of Laos and forestry industries constitute a potentially important sector of the economy. The production of timber was assessed at 120,000 cubic meters per year by the World Bank in the mid-1980s. The annual output of timber is planned to increase to 500,000 cubic meters by 1990. Timber is exported to Vietnam to repay some of its loans.

The country is richly endowed with mineral resources, such as tin, lead, zinc, coal, gypsum, gold, silver, and precious gems. These deposits remain unexplored and unexploited, however, with the exception of tin, development of which has received technical assistance from the Soviet Union, the sole buyer of Laotian tin. Forestry and minerals remain undeveloped because of a lack of domestic capital, insurgent problems, and concerns about external security. As a result, the Army is playing an important economic role in the development and management of the forestry and mining industries.

Electric power represents the single most important element of Laotian exports and the largest source of foreign exchange earnings to date. Electricity has been generated by the Nam Ngum hydropower plant (built under the auspices of the U.N. Mekong Committee), which has a current capacity of 175,000 kilowatts. Power output has more than doubled since 1976 and was estimated at about 900 million kilowatthours in

1986, of which some 600 million kilowatthours were sold to Thailand under a 10-year agreement signed in 1981. The value of electric power exports is expected to decrease by 20 percent in 1988, following a new price agreement negotiated between Thailand and Laos in September 1987.

Official imports consist primarily of machinery, parts, transportation equipment, petroleum products, and foodstuffs, mostly from Vietnam, Japan, and France. In addition, there has been an active smuggling of opium, tobacco, and coffee into Thailand in exchange for unavailable consumer goods.

PRINCIPAL TRADING PARTNERS

Laos's principal trading partners are Thailand, the Soviet Union, Vietnam, Japan, and France. Thailand is the leading trading partner despite political differences and sporadic border disputes. According to a Laotian official, exports to socialist countries increased by 10 percent in 1987 over the previous year, and wood handicraft and coffee were the two main export items earning more than US\$15 million in 1987.

ECONOMIC IMPORTANCE TO THE UNITED STATES

Although the ban on bilateral relations between the United States and Laos was lifted in December 1985, there is no trade between the two countries. Laos has little to offer the United States and lacks the hard currency to buy American machinery and equipment needed for industrialization. The key issue between the two countries deals with the accounting of Americans missing in action (MIA) which Vientiane would like to link to United States aid to Laos. Negotiations on the MIA issue have been extremely slow since February 1986, when a U.S. team was allowed to excavate a site in southern Laos to recover the remains of American servicemen.

DEFENSE BUDGET

The defense budget of Laos was estimated at roughly US\$55 million in 1984 (the latest available figure provided by the U.S. Arms Control and Disarmament Agency). According to a western source, Moscow has promised to give Laos approximately US\$600 million in military assistance over the 1985-90 period. The Soviet military aid involves construction

of air bases, oil pipelines, plus training and equipping the 2,000-strong Laotian air force. Vietnam maintains an expeditionary force of about four infantry divisions in Laos, plus economic construction units and other support troops.